

# Arizona Schedule 165 K-1(NR)

## Nonresident and Out-of-State Partners

### Instructions for Individuals and Fiduciaries

Column 3 is your Arizona source income. Nonresident individuals should report the amounts in column 3 on the Form 140NR line numbers indicated on the Schedule K-1(NR). Nonresident fiduciaries should add lines 4 through 13, column 3, and enter the total on Arizona Form 141, line 7.

However, if your Arizona Form 165 Schedule K-1(NR) shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (fiduciaries). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have an Arizona source passive activity partnership loss, you would not necessarily begin the Arizona return with the amounts shown in column 3 of your

Arizona Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on your Arizona Schedule K-1(NR) has been limited on your federal return because of the federal passive activity rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss that is derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

### Note To Partner:

The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.

### Line 15 -

Line 15 reflects the amount of partnership income which must be adjusted to determine the difference between Internal Revenue Code § 702(a)(8) and ARS § 43-1401.2. If the amount on line 15 is a positive number, individual partners should enter this amount as an "other addition to income" on Form 140NR, line C19. Fiduciaries should enter a positive amount on line 15 as an "other addition" on Arizona Form 141, page 1, line 8(f). If the amount on line 15 is a negative number, individual partners should enter this amount as an "other subtraction from income" on Form 140NR, line D30. Fiduciaries should enter a negative amount on line 15 as an "other subtraction" on Arizona Form 141, page 1, line 11(g).

### Corporate Partners

Corporate partners should report the amount on line 15 of the Schedule K-1(NR) according to the instructions in Arizona Form 120.